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ECONOMY CONTINUES TO IDLE IN FEBRUARY

February proved to be another uneventful month in Pennsylvania as conditions continue to point to an economy that, if anything, is moving sideways. The overall employment and job pictures remain somewhat cloudy. Manufacturing is perhaps best characterized as being in a mini-slump. Construction activity continues to ease. Still, **all things considered, the economy's overall rate of growth probably remains positive. However, the rate of expansion has eased considerably over the course of the past year.**

This rather stagnant growth pattern is evident in the recent behavior in the Pennsylvania index of coincident indicators. During the past eight months, the index has declined six times. It is perhaps worthwhile to review the design of the index. The coincident index represents a measure of the current rate of economic *growth*. All too often (and sometimes in this publication) the index is treated as a proxy for overall economic *activity*. The downtrend in the index of late depicts an economy that is still growing at a positive rate, but it is the rate of growth that is on the decline.

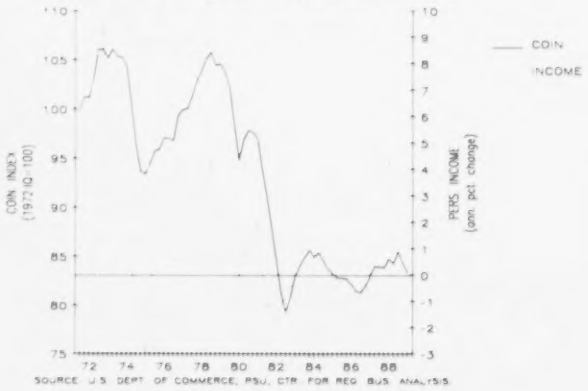
The historical relationship between the index and the overall rate of economic growth (as opposed to the level of economic activity) is evident in the accompanying chart. Trends in real personal income are perhaps the best indicator of economic growth. (Unfortunately, personal income information is only available through last year's third quarter.) Over time, the coincident index has tracked this growth rate, in a qualitative sense, quite well. When all of the ups and downs in the economy's growth rate during the last half of the 1980s are averaged out, growth appears to have held fairly steady. Much the same is true for the coincident index.

As an aside, compared to the rather precipitous declines during earlier recessionary periods, the recent downtrend in the index is not especially alarming. **During the recessions of the mid 1970s and the early 1980s (twice), the coincident index declined in a rather rapid fashion. There are no signs in recent months of such a free-fall in the coincident index.**

February employment and unemployment trends suggest some softening in the economy. The number of residents officially listed as employed is practically unchanged from the previous month and from a year ago. In light of a rather sizable gain in the labor force, the rate of unemployment jumped considerably. At a seasonally adjusted 5.7 percent, the jobless rate is up 0.5 percentage point from January and 1.4 points from 12 months earlier. **While employment is not expected to decline considerably, it is unlikely that enough jobs will be generated to result in renewed downward pressure on joblessness.**

As was the case throughout the mid 1980s, the manufacturing sector once again appears to be holding back job and employment gains. As of February, job levels, at 1,033,000, are off 17,000 from a year ago. All of the decline comes in the durable goods industries, a trend which typically occurs when economic growth turns down. But it is impor-

THE COINCIDENT INDEX AND THE PCT. CHG. IN PA REAL PERSONAL INCOME



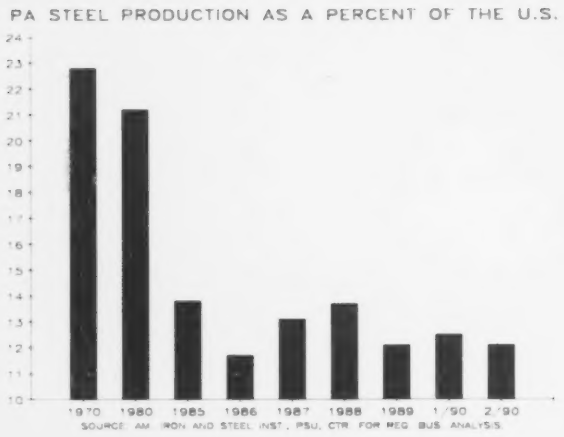
SOURCE: U.S. DEPT. OF COMMERCE, PSU, CTR. FOR REG. BUS. ANALYSIS

PENNSYLVANIA MANUFACTURING OUTPUT AND JOBS (1982-1983=100)

SOURCE: PA DEPT. OF LABOR AND INDUSTRY; PSU, CTR. FOR REG. BUS. ANALYSIS

tant not to rely solely on job trends in gauging the factory sector's health. **While the long-term trend in jobs has been down, manufacturing production, as measured by the Pennsylvania Manufacturing Activity Index (PMAI), is up considerably during the past several years** (chart). The Pennsylvania manufacturing sector is producing more goods with fewer workers, partly because of an increase in worker productivity. On the negative side, the PMAI has turned down in recent months, another indication of slack in the overall economy.

Despite the uptick in production over the course of the past several years, there are still some worrisome developments unfolding in the factory sector. For instance, as recently as 1980, the Commonwealth accounted for more than one-fifth of all steel produced in the United States (chart). However,



Economic Activity in Pennsylvania	UNADJUSTED DATA 1990 January	1990 February	1989 February	SEASONALLY ADJUSTED DATA 1990 January	1990 February	1989 February	SEASONALLY ADJUSTED INDEXES (1977 = 100) 1990 January	1990 February	1989 February
Pennsylvania Industries									
All nonagricultural industries									
No. of wage and salary jobs (thous.)[1]	5,066*	5,084	5,038	5,154*	5,157	5,114	112.9*	113.0	112.0
Service Producing									
No. of wage and salary jobs (thous.)	3,789*	3,811	3,754	3,844*	3,847	3,792	128.5*	128.6	126.8
Transportation and public utilities	251	253	253	254*	255	256	96.9*	97.5	97.7
Wholesale trade	282	281	277	283	283	280	127.7	127.7	126.1
Retail trade	889*	879	875	901*	903	899	125.6*	125.9	125.4
Finance, insurance & real estate	296	296	293	299	299	296	137.4	137.4	136.0
Service & miscellaneous	1,371*	1,390	1,350	1,399*	1,405	1,366	162.2*	162.9	158.3
Federal government	143*	143	142	144*	143	143	112.0*	111.7	111.5
State & local government	557*	569	558	564*	562	551	96.8*	96.4	94.6
Goods Producing									
No. of wage and salary jobs (thous.)	1,277*	1,271	1,283	1,310*	1,310	1,322	83.3*	83.2	84.0
Construction	214*	212	206	239*	241	235	129.8*	130.9	127.8
Mining	27	27	27	28	28	28	57.7*	58.3	57.9
Manufacturing	1,036	1,033	1,050	1,044	1,042	1,059	77.8	77.6	78.9
Durable goods	588	586	603	593	592	609	73.2*	73.1	75.2
Nondurable goods	448	447	447	451	450	450	84.8	84.5	84.6
Ave. wkly. hrs. worked by prod. workers	40.6	40.5	40.9	40.7	40.7	41.1	103.0	103.1	104.0
Total wkly. person-hours worked (mils.)	29.0	28.8	29.7	29.3	29.2	30.1	76.3	76.0	78.5
Total wkly. payroll (mil. dols.)	315.3	313.8	314.7	316.8	317.0	318.2	141.0	141.1	141.6
Average hourly earnings (dollars)	10.87	10.89	10.58	10.84	10.88	10.57	185.3	186.0	180.7
Average weekly earnings (dollars)	441.32	441.05	432.72	440.44	443.27	434.83	190.4*	191.6	188.0
Steel production (thous. tons)	1,034	921	1,088	n.a.	n.a.	n.a.	50.2	45.2	53.2
Industrial electric power sales (mil. kwh)	3,807	3,651	3,776	3,842	3,706	3,827	104.0	100.4	103.6
Mining									
Anthracite coal (thous. net tons)	307	286	234	379	361	294	77.7	73.9	60.3
Bituminous coal (thous. net tons)	5,559	5,504	5,611	5,386	5,761	5,878	76.4	81.7	83.3
Construction contracts awarded (mil. dols.)									
Total	529.7	457.1	526.5*	801.2	669.6	763.7*	249.0	208.1	237.4*
Residential building	188.4	188.9	240.2*	274.1	312.0	398.7*	194.7	221.7	283.3*
Nonresidential building	202.7	182.7	142.3*	289.2	263.4	205.7*	266.6	242.8	189.6*
Nonbuilding (utilities and public works)	138.7	65.5	143.7*	237.9	94.2	159.3*	328.3	130.0	219.8*
Employment of Pennsylvania Residents									
Employed, no. of persons (thous.)	5,513	5,510	5,506	5,589	5,613	5,617	116.3	116.8	116.9
Unemployed									
No. of persons (thous.)	348	373	283	310	335	247	77.3	83.5	61.6
Rate (percentage of labor force)	5.9	6.3	4.9						
Rate, seasonally adjusted				5.2	5.7	4.3			
Civilian labor force, no. of persons (thous.)	5,860	5,883	5,788	5,898	5,947	5,864	113.3	114.2	112.6
Initial claims for unemployment benefits	149,608	90,546	78,866	86,090	96,380	84,151	60.1	67.3	58.8

Consumer Prices, all items	Urban Indexes (1982-84 = 100) 1990 January	1990 February	1989 February	Percentage Change Month Ago	Year Ago
U.S. city average	127.4	128.0	121.6	0.5	5.3
Philadelphia	131.2	132.2	125.4	0.8	5.4
Pittsburgh	n.a.	123.4	117.9	n.a.	4.7

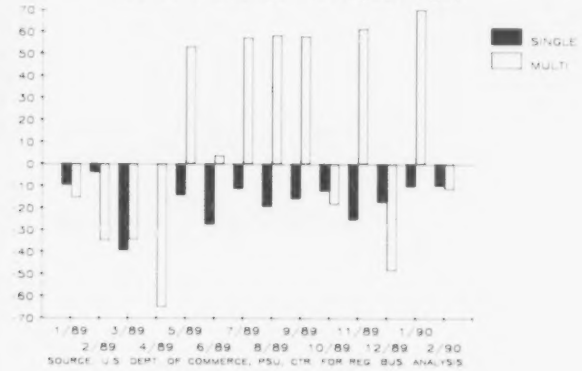
[1] Total includes workers on strike. * = figure revised n.a. = data not available
SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.

New Pennsylvania building permit authorizations (percent change from year ago)

	Feb.	Pct. chg.	Year-to-date	Pct. chg.
Residential	2,439	– 10.0	4,914	– 10.9
Nonresidential	854	– 5.5	1,535	– 12.3

Source: U.S. Dept. of Commerce, Bureau of the Census.

PA HOUSING PERMIT GROWTH; SINGLE- AND MULTI-FAMILY UNITS
(percent change from year ago)


SINGLE
MULTI
1/89 3/89 5/89 7/89 9/89 11/89 1/90
2/89 4/89 6/89 8/89 10/89 12/89 2/90
SOURCE: U.S. DEPT. OF COMMERCE, PSU, CTR. FOR REG. BUS. ANALYSIS

the most recent readings show that Pennsylvania accounts for just over 10 percent of the nation's steel production.

Construction jobs continue to creep forward, despite the fact that other indicators of building activity remain on a downtrend. In fact, construction jobs remain at record high readings. However, the number of new residential housing units authorized by permit is down more than 10 percent so far this year compared to the first two months of 1989. The value of construction contract awards is down in February from year-ago readings, with all of the decline coming in the residential and nonbuilding sectors.

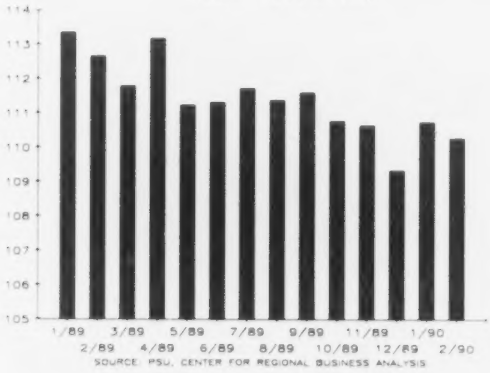
During the course of the past 14 months, the authorization of new single-family housing units has fallen consistently below their year-ago readings (chart). Surprisingly, permit authorizations on the multi-family side have shown some periodic strength. Still, the overall trend continues to point down.

In the service-producing sector, the services industries continue to generate the bulk of all new jobs. The monthly gain of 19,000 service jobs in February works out to 6,000 more than expected, given past seasonal patterns. The retail trade industry accounts for 879,000 jobs, up just 4,000 from 12 months earlier. The downtrend in the purchase of new motor vehicles in Pennsylvania through December of last year is apparent in the accompanying chart. In all but four months last year, new registrations were down from year-ago readings. The declines were especially pronounced near year-end. (Additional indicators of retail activity, January sales and new vehicle registrations, are not yet available.)

The index of leading indicators is down in February for the fourth time in the past five months (chart). As with the coincident indicators, this does not suggest that the absolute level of economic activity is likely to fall, but rather, that the pace of overall economic growth will lessen somewhat.

GROWTH IN PA NEW VEHICLE REGISTRATIONS
(percent change from year ago)

PENNSYLVANIA COMPOSITE INDEX OF LEADING INDICATORS
(Jan. 1972=100)



Pennsylvania Composite Indexes

	Index		Percentage Change from Preceding Month	
	Leading	*Coincident*	*Leading*	*Coincident*
June 1989	111.3	85.3	0.1	0.0
July	111.7	84.8	0.4	– 0.6
August	111.4	84.5	– 0.3	– 0.4
September	111.6	84.2	0.2	– 0.4
October	110.8	84.1	– 0.7	– 0.1
November	110.6	84.6	– 0.2	0.6
December	109.3	83.6	– 1.2	– 1.2
January 1990	110.7	84.1	1.3	0.6
February	110.3	84.0	– 0.4	– 0.1

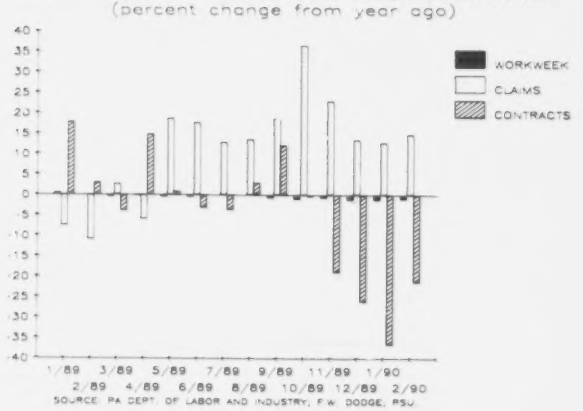
None of the three components of the leading index have moved in a favorable fasion in recent months (chart). The average workweek remains down slightly from year-ago readings, just as it has been for the past several months. Whereas the growth from year-ago readings was positive several times during the first three quarters of 1989, the value of residential construction contract awards has declined considerably in each of the past four months. Likewise, initial claims for unemployment insurance have been at least 10 percent higher than a year ago in each of the past ten months.

While this review has focused in on the more apparent negative aspects of recent economic trends, it is best to once

again conclude with a positive note. **The strength evident in most of the service-producing industries, especially services itself, will likely pull the economy through. Much of the current economic weakness is confined to the goods-producing industries. Together, they account for about 31 percent of the earnings component of personal income and 26 percent of all nonfarm jobs. One can argue that at least two-thirds of economic activity in Pennsylvania is accounted for by industries which are exhibiting some, though in many cases moderate, growth.**

— William D. Anderson

RECENT TRENDS IN PA LEADING INDEX COMPONENTS
(percent change from year ago)



SOURCE: PA DEPT. OF LABOR AND INDUSTRY, F.W. DODGE, PSU.

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84

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